



CIATTI
GLOBAL WINE & GRAPE BROKERS



California Report

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**Ciatti Global Wine
& Grape Brokers**

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California's 2021 harvest was completed by Thanksgiving week when areas of the Central Coast, picking well behind the rest of the state, finally gathered in the last of their grapes. The state-wide estimate of 3.6-3.7 million tons – a second-successive below-average crop – still holds and we must now wait for the Californian Department of Agriculture's preliminary grape crush report in February to provide a fuller picture.

The Central Coast escaped much of October's rainfall and consequently some growers there were able to wait on ripening a little longer – though rot does not appear to have been an issue anywhere anyway. The significant rainfall that fell in many parts of California brought hope the state's drought would start to subside, but very little precipitation has occurred since. In addition, the 90-day forecast for December through February indicates the La Niña influence bringing drier and warmer than average conditions to much of California, particularly central and southern areas. This raises a question mark over the crop size in 2022: For many growers, drought risk has replaced frost risk as the foremost fear and a potential factor in working out future grape pricing. Many growers suspect 2022 could bring a third lighter crop in succession, so they are holding off from taking deals now while they wait to see how the market develops.

We have seen bulk market activity pick up in the past 3-4 weeks, while activity on the grape market is underway earlier than we saw in the previous three years. Much of this is discussion rather than deals, with a price expectation disparity between buyers and sellers because of rising input costs, inflationary pressures, and differing readouts on the retail sales picture: Suppliers see a lower level of carryover inventory versus previous years and a sales spike at retail since COVID-19 first reached US shores; buyers see a rapidly diminishing on-premise spike and consumers possibly reacting unfavourably to higher shelf prices in 2022.

These polarised standpoints, together with a hesitancy regarding what 2022 may bring, pervades the marketplace and is, in general, a drag on deal-making. A future hard to read makes for a market hard to read and – as ever – we at Ciatti are doing our best to discern where the opportunities are. Read on for more.

The uncertainty in the world currently, and on the bulk market within it, means it pays even more to be in dialogue with your broker so that we can help you navigate a route forward. Do reach out to us with your bulk wine samples and the 2022 grapes you will have for sale. Likewise, keep us up to date with your bulk wine or grape needs. In the meantime, as another eventful year draws to a close, all of us at Ciatti would like to wish you and yours a very Happy Holidays and a prosperous – and healthy – New Year.

Robert Selby

The Grape Market

We are seeing grape activity on the Coast at a much earlier stage than we saw in the previous three years, and some of this activity is around longer-term deals. Activity is earlier but also has more depth to it, with a number of different buyers scouting out the marketplace. Much of this activity is located in the North Coast and on the whites – namely Sauvignon Blanc and Chardonnay – but there has also been some interest shown in Pinot Noir. The Central Coast grape market, meanwhile, is quieter.

There has been activity on grapes in the Central Valley. This is mainly on Chardonnay, with buyers not just discussing but offering contracts on that varietal, and similarly – but to a lesser extent – on Petite Sirah and also some Zinfandel. There is also interest in the generic whites such as Chenin Blanc and Colombard. However, the prices being offered resemble those offered this time last year ahead of the 2021 crop, despite the fact prices subsequently increased and the 2021 crop, it is widely believed, came in lighter than average.

Growers coming off the back of two lighter crops and rising input costs are understandably bullish on grape

pricing. However, on the flip-side, many buyers of Valley grapes are coming off decelerating off-premise wine sales following 2020's pantry-stocking spike, while buyers of Valley and Coastal grapes are seeing case-good sales projections for 2022 that are murky at best and facing their own struggles with rising input costs. Consequently, in both the Coast and in the Valley, grape activity is mainly in the form of discussions rather than deals as a large disparity in pricing expectations persists.

Early interest in Central Valley generic white and floral grapes such as Chenin Blanc and Colombard is indicative of a limited supply resulting from a lack of new plantings or re-plantings in recent years (the price these grapes could command was too low to warrant growers investing in them). And with input costs having risen in the past 12 months, planting contracts – and there are discussions on these in the Valley – must be even more attractive now than they were this time last year to persuade growers to commit.

Please update us on the grapes you will have for sale for 2022 by contacting Molly at +1 415 630 2416 or molly@ciatti.com.

The Bulk Market

Latest retail statistics continue to show a decline in off-premise wine sales versus 2020, with growth above the \$11/bottle price point and contraction beneath it. At the same time, many wineries are seeking to move their shelf prices up given input cost increases and inflation. We will find out in 2022 how consumers react to these rises. With inflationary pressure and flat wine sales growth, we expect to see the need to build efficiencies increase as we move forward, in grape-growing right through to sales and marketing, and more consolidation.

Bulk market activity levels have risen in the past 3-4 weeks with Sauvignon Blanc and Chardonnay commanding most of the attention. Much of this activity is occurring in the Coast, specifically for

Chardonnay in Sonoma and Napa as well as Sauvignon Blanc in the North Coast in general. Pricing on the 2021 bulk wines seems to be stronger than initially thought, and especially strong on the 2021 whites.

Although there is not a large amount of 2021 bulk wine availability to go get in the Central Valley in general, we are not seeing intense demand for what does remain. Could some of the 2021 pricing in the Valley be too strong for the current retail sales picture? For instance, we have seen some Sauvignon Blanc inventory pop up on the Valley's bulk market, but buyer interest has been somewhat muted. Deals on Valley wines are proceeding incrementally, by the truckload, suggesting buyer caution regarding the retail sales picture combined

Please see next page for more.

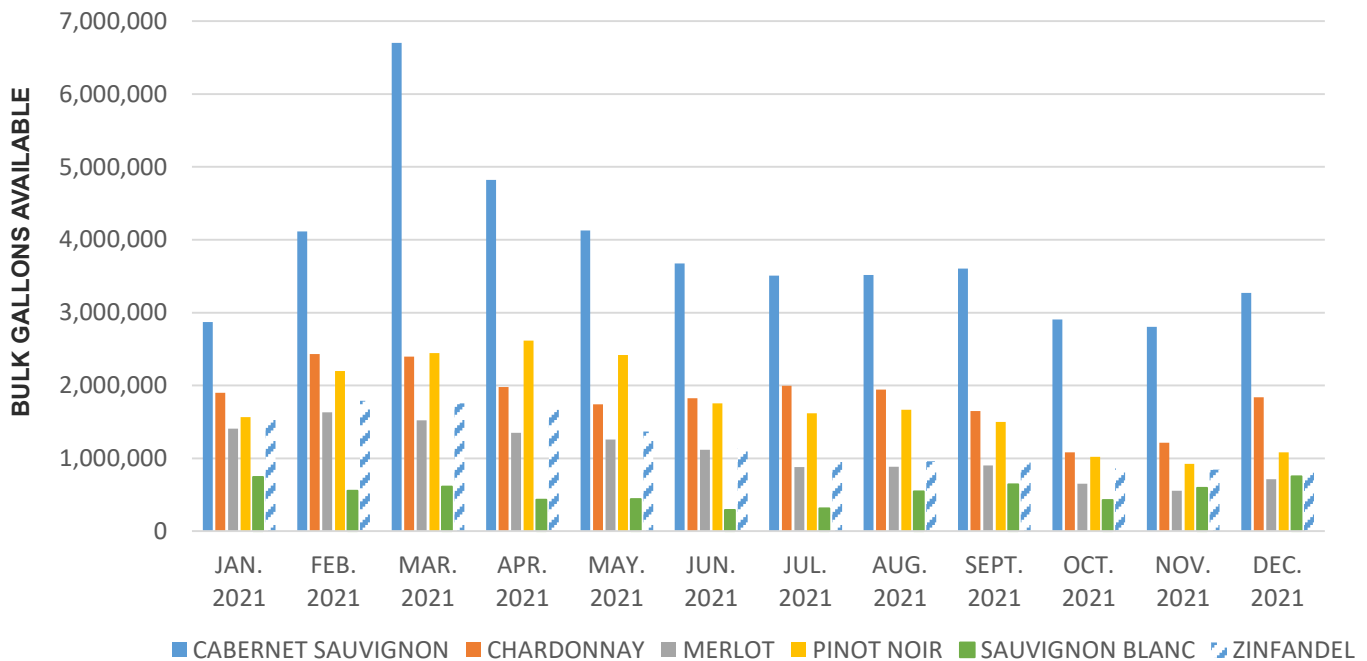
with bulk pricing that is well up on where it was two years ago. An example is dry white and dry red: albeit these wines are under pressure (a lack of re-plantings constraining supply while last year's retail spike boosted demand), pricing on them is almost twice as high as it was two years ago.

We have seen a few larger wineries starting to turn back to selling some bulk wine, which recalls what was

happening on the bulk market before 2020 brought COVID-19 pantry-stocking and wildfires.

We are currently performing sample approvals on 2021 wines from across the state for many bulk contracts and we are discovering that – despite the challenging growing year – quality seems to be very good and nearly all buyers are happy with it.

California Bulk Wine Inventory Inventory



2020 Coastal Cabernet Opportunities

A reluctance to use 2020 Coastal Cabernet due to smoke exposure perceptions could more quickly reduce availability on – and ratchet-up prices on – the Coast's 2021 Cabernet. We do not know if interest would be drawn to 2020 Coastal Cabernet at the right price (especially if supply of 2021 Cabernet becomes hard to come by), or if buyers would still seek to skip the 2020 vintage entirely (especially if retail sales figures are down anyway in response to increased shelf prices).

The continuing presence of this 2020 Coastal Cabernet inventory all the while suppliers are expecting a premium on their 2021 wines makes it hard for buyers to gauge the market. There is are limited amounts of Lodi 2020 Cabernet available, for example, to set a price floor for the Coastal 2020 Cabernet.

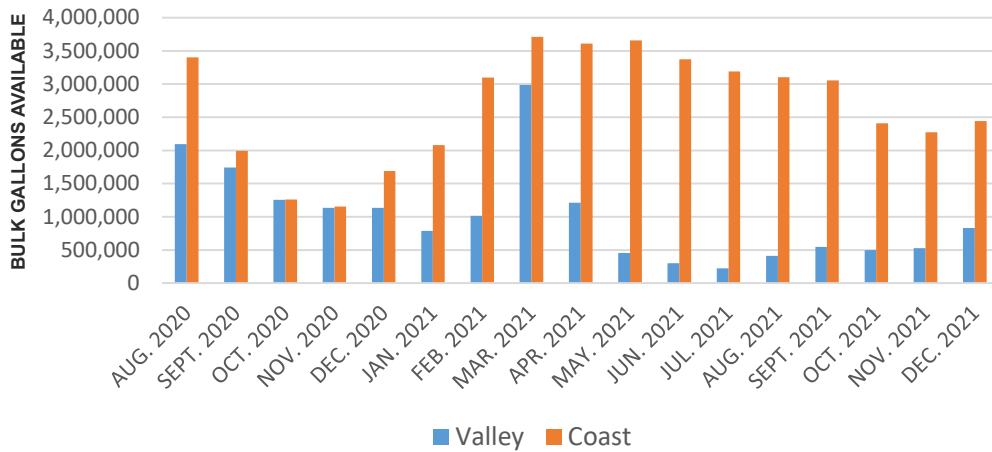
We have seen at least some activity for the remaining appellated 2020 Coastal Pinot Noir, namely from Russian River and Sonoma County. This is at reduced

Please see next page for more.

pricing relative to 2020, not where the 2021 Pinot Noir pricing currently sits. Perhaps 2020 Coastal Cabernet – including North Coast Cabernet – can likewise be viewed by buyers as an opportunity, should suppliers be willing to come down in price.

Contact either Mark at +1 415 630 2548 / mark@ciatti.com or Michael at +1 415 630 2541 / michael@ciatti.com to get your wine listed with us.

Cabernet Sauvignon



Events

Ciatti brokers will be attending and will have a booth at these upcoming events:

- **January 25 - 27:** Unified Wine & Grape Symposium
- **February 3:** Sonoma County Winegrowers Dollars & Sense Seminar and Trade Show
- **May 19:** WineExpo Tradeshow & Conference



Structan

A Smoke Taint Solution



As winemakers around the world are now only too aware, after a year of wildfires in a number of wine-producing countries, the biggest commercial damage caused by fire can be smoke drifting into vineyards prior to – or during – harvest. Wines made from smoke-affected grapes can be characterised by unpleasant smoky, ashy or burnt aromas with an excessively drying back palate and retronasal ash character. Unsurprisingly, consumers have been shown to respond negatively to such wines.

There are three main factors that increase the risk of smoke-exposed grapes becoming smoke-tainted: being close to picking readiness, being of the typically most susceptible varieties (Cabernet and Pinot Noir of the reds, Pinot Grigio, Chardonnay and Sauvignon Blanc of the whites), and prolonged smoke exposure. The compounds in smoke known as free volatile phenols (such as Guaiacol and 4-methylguaiacol) are absorbed directly by the grapes and can bind to grape sugars as glycosides. These glycosides break apart during fermentation (or over time in the barrel or bottle), releasing the volatile phenols into the must/wine so that a smoky flavor becomes perceptible. They can also be released in the mouth during drinking, contributing to the perception of smoke taint.

What solution can our partners at Stoak Technologies offer winemakers visited by smoke? Well, Structan – their all-natural, organic-certified, liquid oak extract – can not only be used as a finishing tannin and wine stabilizer but also as a smoke-taint masking option. While other winemaking interventions – such as reverse osmosis – may reduce the concentration of smoke-derived volatile phenols in wine, it has not yet been shown that it is possible to completely remove them and, anyway, such interventions also strip the wine of its best characteristics and any positive impact does not last. Structan, however, successfully *masks* the volatile phenols through increasing the

wine's overall complexity, thus preserving the wine's best flavor, aroma and colour attributes, for up to five years.

Structan has been used successfully over a number of years by several wineries around the world who have had to contend with smoke-affected wines (and one of the Western Cape's premier wineries, which sells into the European market, used Structan to make a red wine that went on to become an award winner). The fires of the past year have also led to an uptick in interest in Structan and, from this, new trials are ongoing. Consequently, Structan now comes with a full trial protocol, refined over the years by the experience of multiple wineries. The protocol differs depending on whether the wine in question is red or white and it outlines, for example, the size and timing of dosing. Structan's stable liquid form makes measuring and adding really simple, with no premixing or dissolving necessary. Just dose during the fermentation process and/or in the blending tank, to get stabilized, complex wines free from unpleasant flavours and aromas.

Results from chemical analysis and sensory evaluation against a control, carried out by PhD research in the Viticulture & Oenology Department at the University of Stellenbosch, have shown that Structan reduces the perceived intensity of smoke-taint flavor and aroma in smoke-affected wines. Further scientific validation is ongoing at Stellenbosch and adding to the growing body of evidence, from the lab and out in the field, that Structan has a very significant positive impact on smoke-affected wines; the latest report will be ready at the end of the year. In the meantime, give us a call to discuss Structan further and start your own trial.

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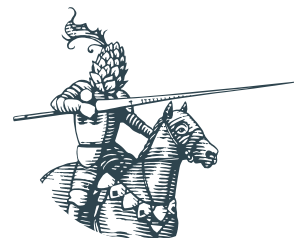
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Please contact Thomas Gilbert for any and all barrel related matters: Thomas@johnfearless.com

We'll have a booth in Sacramento for Unified Wine & Grape Symposium. Stop by booth #2141 to meet us in person.



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